

# PepsiCo's Journey Toward an Ethical and Socially Responsible Culture

## COMPANY OVERVIEW

PepsiCo is one of the largest food and beverage companies in the world. It manufactures and sells eighteen brands of beverages and snack foods and generates over \$98 billion in retail sales. PepsiCo encompasses the Pepsi Cola, Frito-Lay, Tropicana, Quaker, and Gatorade brands and offers products in over 200 countries. It currently holds 36 percent of the total snack food market share in the U.S. and 25 percent of the market share of the refreshment beverage industry. The company's headquarters are in New York and employs over 200,000 people. In 2006, Michael D. White became the CEO of PepsiCo International, and in 2007 Indra K. Nooyi became the CEO of PepsiCo. PepsiCo has received many awards and recognitions over the years, including being ranked in the top 25 of the best global brands, ranking number four overall by Diversity Inc, and earning the Green Award by the Environmental Protection Agency.

## COMPANY AND MARKETING HISTORY

The Pepsi recipe was developed by pharmacist Caleb Bradham in the 1890s. Originally marketed under the unassuming name "Brad's Drink," Bradham's creation was renamed Pepsi-Cola in 1898 due to the pepsin and kola nut ingredients used. Awareness of Bradham's new creation spread quickly, and in 1902 he decided to create the Pepsi-Cola Company so people everywhere could enjoy the drink. In 1903 the patent became official, and by 1910 Pepsi-Cola had franchises in 24 states and sold over 100,000 gallons of the syrup annually. However, the Pepsi brand would encounter several rocky situations before becoming the success that it is today. World War I proved to be an especially turbulent time for Pepsi-Cola. Severe fluctuations in sugar prices caused the company to lose money, and in 1923 Bradham sold the trademark to Craven's Holding Corp., who shortly after sold it to a New York stockbroker named Roy C. Megargel. Megargel fought to revitalize the company but failed. In 1931 the Pepsi-Cola Company underwent its second bankruptcy. Candy manufacturer Charles Guth, president of Loft Inc., saw Pepsi-Cola as a great investment and decided to purchase the company. Within two years the company was earning over a million dollars and was on its way to making history.

### Building a Brand

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Guth had many challenges to overcome in order to save the struggling brand. Through the Great Depression, Pepsi carefully positioned itself as a low cost leader and made advertising history when it released the nation's first jingle "nickel, nickel," which was heard across the nation. With financially-strapped customers reluctant to pay a nickel for a drink, Guth began offering twice the amount of Pepsi for the same price, a tactic which met with resounding success. World War II continued to test Pepsi-Cola's strength with introduced sugar rationing, but Pepsi's marketing

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campaigns and brand design helped Pepsi make it through the difficult period. For instance, Pepsi changed the colors on the label to be red, white, and blue to show patriotism and declared that patriotic people drink Pepsi. Pepsi's success allowed it to begin marketing internationally in 1945.

As more people began earning more disposable income, Pepsi-Cola recognized that the marketplace was changing. To maintain a strong brand, its marketing campaigns had to change too. Pepsi therefore said goodbye to the long-running "nickel, nickel" slogan and introduced a more lively "More Bounce to the Ounce" slogan to the after-war population. During the 1950s, Pepsi evolved from the low cost price leader to a more lifestyle drink approach. For example, as Americans became more health conscious, Pepsi introduced slogans such as "The Light Refreshment" and "Refreshing Without Filling." Other new advertising campaigns included slogans such as "Be Sociable, Have a Pepsi" and "Now Its Pepsi, For Those Who Think Young" to concentrate on a younger market.

It was this younger target market and the post-war baby boom generation that set the stage for Pepsi's long-lasting brand image. It all started with Pepsi advertiser Alan Pottasch, who recognized the different nature of the newest generation of consumers. Whereas consumers before the war were more cautious and price-conscious, the post-war baby boomer generation was carefree and hopeful. Pepsi once again capitalized on the changing environment, and under Pottasch launched the "Pepsi Generation" campaign in 1963. The campaign was an advertising breakthrough as it helped to set a new standard for advertising in America. The ads portrayed happy Americans living the American dream—with their Pepsis, of course. By associating its brand with youth and excitement, Pepsi-Cola became the forerunner of lifestyle marketing. Future campaigns continued to promote this brand image, with slogans such as "You've Got a Lot to Live. Pepsi's Got a Lot to Give," "Catch that Pepsi Spirit!," "Pepsi Now!," and "Come Alive. You're in the Pepsi Generation!"

Pepsi successfully adapted its practices and product positioning with the times through its marketing campaigns. The company also pursued a major acquisition strategy as well as an expansion of its product line. In 1964, Pepsi introduced Diet Pepsi in response to the nation's noticeable lifestyle change toward health, along with the Mountain Dew brand. More recently, PepsiCo broke into the bottled water industry with its rollout of Aquafina bottled water in 1997. Yet perhaps its biggest milestone was Pepsi's monumental merger with Frito-Lay Inc. to become PepsiCo Inc., the company it is known as today. Other major PepsiCo acquisitions included Taco Bell and Pizza Hut Inc. (which would later be spun off from the company in 1997), 7Up International in 1986, and Tropicana Products in 1998. Pepsi has also profited through corporate partnerships, such as a joint venture with the Thomas J. Lipton Company in 1991 and a partnership with Starbucks in 1994 to develop coffee drinks.

### Celebrity Endorsements

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In more recent years, Pepsi has used celebrity branding to build upon the Pepsi brand. The 1980s brought in celebrity endorsers like Tina Turner, Michael J. Fox, Gloria Estefan, and David Bowie. By far its biggest celebrity endorser in this time period was Michael Jackson. The singer and PepsiCo struck a \$5 million partnership that linked the two together for the rest of the 1980s. With Jackson

as its prime celebrity endorser, PepsiCo was able to set itself up as the hip, trendy drink for the new generation. Pepsi's celebrity partnerships enabled the company to gain market share even as Coca-Cola's market share was dropping.

Another notable achievement in marketing history was the inroads Pepsi made into the Soviet market. Perhaps the biggest (indirect) Soviet endorser of the product was the Soviet Premier Nikita Krushchev, who was caught on camera drinking a Pepsi at the 1959 American National Exhibition in Moscow. A favorable relationship developed between the Soviet Union and the company, leading to a trade agreement in 1972 where Pepsi became the first foreign consumer product sold in the Soviet Union. In 1988, Pepsi also became the first advertiser to buy time on Soviet television. A Pepsi advertisement that was aired later that year incorporated Soviet teenage actors to appeal to the younger generation. The Pepsi Generation was taking control over the Soviet Union and still remained popular in Russia after the Soviet Union's dissolution.

### Recent Years

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PepsiCo has continued to use celebrity marketing throughout the 1990s and early 2000s, including celebrities such as Ray Charles, Cindy Crawford, and Britney Spears. To appeal to sports fans, PepsiCo also tapped into the celebrity status of Shaquille O'Neal and racecar driver Jeff Gordon. In 2006 PepsiCo got a new CEO, Indra Nooyi, who began reorganizing PepsiCo to focus on several different initiatives. Under her leadership, PepsiCo's goals included focusing more on countries outside the U.S., developing healthier snacks, having a net-zero impact on the environment, and creating a better working environment. PepsiCo has also begun investing heavily in the countries in which it does business. For example, in 2009 PepsiCo announced it would invest another \$1 billion into Russia, which according to CEO Nooyi reflects Pepsi's "long-term commitment" to the Russian market. The worldwide success of PepsiCo reflects the company's dynamic and adaptable strategy throughout the company's history, leading to its current revenues of over \$43 billion.

### PepsiCo Divisions and Brands

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PepsiCo consists of four divisions: PepsiCo Americas Beverages, PepsiCo Americas Foods, PepsiCo Europe, and PepsiCo Middle East, Asia, and Africa. These divisions are further split up into different businesses, including Pepsi Beverages, Frito-Lay, Sabritas, SoBe, Tropicana, and more. The following are some of PepsiCo's most well-known and profitable businesses.

#### *Pepsi-Cola Brands*

Over the years, Pepsi-Cola has gone above and beyond the original Pepsi beverage to incorporate a wide variety of brands. In the U.S., some of the most well-known brands include Mountain Dew, Sierra Mist, IZZE, and Aquafina beverages. International brands include Fiesta, Everness, Pepsi Light, and Manzanita Sol.

However, in the last decade, the growth of soft drinks has lowered due to a new wave of health consciousness sweeping the nation. This is troublesome news for PepsiCo's most popular brand, the Pepsi soft drink. It requires PepsiCo to innovate in order to create or acquire healthier brands

that appeal to the masses. Some of these drinks include Muscle Milk, Honest Tea, and vitamin water. Recently, however, PepsiCo has begun a restructuring of its Beverages division to create better integration between its units. Until 2010, PepsiCo's Americas Beverages consisted of one business unit led by Eric Foss. In April, the company decided to purchase and merge its two largest bottling companies, the Pepsi Bottling Group and Pepsi Americas. As a result of this merger, Pepsi now has control over 80 percent of its bottling network. In the restructuring process, PepsiCo's Americas Beverages now consists of two businesses, the Pepsi Beverages Company, including the original Pepsi brands, and PepsiCo Beverages Americas, which includes the Tropicana, Gatorade, and Latin American brands.

As part of the restructuring, PepsiCo is also embarking on what it calls the "Power of One" business strategy. Under this strategy, PepsiCo is investigating ways it can bundle or combine its beverages with its food products. The purpose of PepsiCo's recent actions is not only to encourage consumers to purchase its products, but also to appeal to consumers' desires to save money on multiple products. The entire process is one additional way PepsiCo hopes to bounce back.

### *Frito-Lay*

Even before the historic merger between Frito-Lay and Pepsi-Cola, Frito-Lay had a successful business history. It started in 1932 with entrepreneurs C.E. Doolin and Herman W. Lay. During that year, C.E. Doolin sampled corn chips in a Texas café and saw an opportunity for the small chip's future. He went and purchased the corn chip manufacturing company. Doolin then began selling bags of FRITO corn chips, but not from a retailer or a grocery store. Rather, he originally began selling his newly acquired product from his Model T Ford.

Also in 1932, a man named Herman W. Lay started selling potato chips. He also purchased the manufacturing company and called it the H.W. Lay & Company. In 1961, the two companies joined together to form the Frito-Lay Company. Four years later, it would merge with Pepsi-Cola to become the PepsiCo Company. Today, Frito-Lay owns over 50 percent of the snack foods industry in America and includes such well-known brands as Lay's Potato Chips, Frito's Corn Chips, Doritos, Cheetos, Grandma's Cookies, Tostitos, SunChips, and Cracker Jack popcorn. The division contributes \$11 billion to PepsiCo and employs over \$48,000 people.

Frito-Lay has many accomplishments to be proud of that go beyond its products. One of its great prides is its Supplier Diversity Program, first launched in 1983. According to the company, since its founding the Supplier Diversity Program has spent over \$2.1 billion with minority and women-owned entrepreneurs. Additionally, Frito-Lay has made strides in sustainability. Among its many initiatives, Frito-Lay has converted its sales cars to hybrid vehicles and partnered with Terracycle to encourage employees and consumers to give used bags to its partner, which then turns the bags into tote bags or other products to sell. On Earth Day 2010, Frito-Lay also offered its first compostable bags. The outer layer of 10.5 ounce SunChip bags are now biodegradable, as they are composed of a type of acid found in plants.

As with all big companies, of course, Frito-Lay has experienced its share of controversies in its history. In 1967, Frito-Lay introduced a cartoon character named Frito Bandito, a Mexican bandit

with a sombrero who stole other people's corn chips by gunpoint. The Mexican American population launched a series of protests. They felt that the cartoon character was a negative and highly offensive stereotype of Mexicans and Mexican-Americans. Due to the wide popularity of the character, Frito-Lay refused to pull Frito-Bandito, prompting the National Mexican-American Anti-Defamation Committee and other groups to file a \$670 million lawsuit against the company. Finally, the cartoon character was removed from the scene in the early 1970s. The controversy emphasized the importance of cultural sensitivity and stakeholder analysis when launching any campaign that might alienate company stakeholders.

### *Gatorade*

Gatorade, the official sports drink of the NBA and major league baseball, dates back to 1965. The formula was developed by a group of scientists after a study revealed that players at the University of Florida were losing electrolytes and carbohydrates during games. Gatorade (named after the Florida Gators team) was meant to be a solution to that problem by containing a balanced amount of electrolytes and carbohydrates that would rejuvenate players. Gatorade was a huge success among sports teams, leading to future innovation with products like the Gatorade Nutrition Shake and the Gatorade Bar. In 1983, Quaker Oats Co. acquired Gatorade, which in turn was acquired by PepsiCo in 2001 when PepsiCo bought the Quaker Oats Co. Gatorade has become the third most popular selling drink under PepsiCo (after Pepsi and Mountain Dew).

Despite Gatorade's success, the past few years have seen declining sales for Gatorade and added competition for the sports drink market. One of the problems Gatorade faces is the lack of appeal for the younger generation, who sees the beverage as something their parents drank. As a result, PepsiCo has spent the largest amount of money in its history to create a new Gatorade campaign and lineup called the "G Series." The G Series has two major purposes in revitalizing the Gatorade brand: it seeks to demonstrate that Gatorade can be used for more than hydration and nutrient replacement, and it is targeted more toward teens. Consequently, the line has different types of Gatorade that are meant to be used in a three step process. The first beverage, "Prime," is filled with carbohydrates and is meant to be used before a game. The second, "Perform," is for during the game. The final, "Recover," is protein-rich and is used after the game (the drinks are in different shaped bottles). With this new system of Gatorade drinks, PepsiCo is targeting every aspect of the athlete's game time.

PepsiCo also sees teenagers as the prime market for the new G Series, as it believes that people first become Gatorade fans at that age. Commercials for the new product show the evolution of the Gatorade product along with favorite athletes such as Michael Jordan or Orlando Magic player Dwight Howard. Adults are not forgotten either in Gatorade's reinvention, but are given a separate line. G Series Pro is an adult version of the G Series but is targeted toward marathon runners and personal trainers (along with other "elite athletes"). With this strategy, PepsiCo hopes to effectively target two distinct markets. The three products of the G Series can be purchased together for \$7.

## CRITICISMS

PepsiCo's success has not come without major challenges or ethical dilemmas. One of the biggest difficulties for any multinational organization is how to successfully enter into other countries, particularly when laws vary from country to country. Although PepsiCo takes great care in researching potential markets, the company has encountered several problems that have caused tensions with different cultures, in both the U.S. and abroad. Additionally, PepsiCo still faces heavy criticism for products that are viewed as largely unhealthy and whose packaging contributes to a large amount of waste. Finally, though PepsiCo has proved to be successful in continually updating its advertising campaigns, a recent iPhone app developed to target the AMP Energy Drink market unleashed a stream of controversy for its potentially offensive content.

## INDIA

PepsiCo first entered the Indian market in 1989, and since then the company has become one of the largest food and beverage companies in the country. Unfortunately for the company, some of the largest and longest running allegations of PepsiCo's wrongdoing are also based in India. The company and other competitors in the industry have been heavily criticized about the quality and the quantity of the water used in their beverages. In 2003, the Centre for Science and Environment (CSE) claimed that the water which PepsiCo and other beverage companies in India were using contained toxins. These toxins included pesticides that can contribute to cancer and the overall breakdown of the immune system. According to the CSE, Pepsi soft drinks had 36 times the level of pesticide residues permitted under European Union Regulations. However, no such law bans the presence of pesticides in India. The issue is still under investigation and the Indian government is trying to find a way to validly detect the pesticide levels and ultimately ban any trace in a soft drink. This allegation of unsafe levels of pesticide has been denied by both PepsiCo and the Coca-Cola Company.

Although there is not yet a law in place, PepsiCo found that it could still face considerable repercussions for what its stakeholders perceive to be unethical activities. When pesticides were once again reported in the soft drinks a few years later, the Indian state of Kerala temporarily banned the sale of Pepsi and Coca-Cola. Five other Indian states also instituted partial bans. These extreme actions on the part of the local governments reveal the care multinational organizations must take to go above and beyond the national law in social responsibility.

Another major concern in India cited by farmers is that the Pepsi manufacturing plants are polluting the lands, making them less fertile for growing crops. A study conducted in 1992 found that PepsiCo India and similar companies created 10,000 metric tons of plastic through their manufacturing and importation processes. About 60-70 percent of this plastic was recyclable, creating a large amount of unnecessary plastic waste. Similar allegations of waste and pollution arose again in 2006, concerning both farmers and government officials alike. Furthermore, the farmers complained that the PepsiCo plant takes the groundwater to run its operations, making it, once again, harder to effectively grow crops.



In solving these ethical dilemmas, PepsiCo must take the different levels of government into account, as well as the concerns of NGOs and individual Indians. A thorough stakeholder orientation is needed to discover ethical courses of action and avoid negative repercussions.

## BURMA

Multinational companies should always investigate the status of the country in which it wants to operate. One major challenge these companies might encounter is whether to operate in a profitable market that is antagonistic to the parent country or that has been accused of human rights violations. The expansion could backfire, with citizens of the home country boycotting company products. PepsiCo likely faced this risk in the middle of the Cold War when it began doing business in the Soviet Union. However, a similar controversy did not have as good an outcome.

In 1991 PepsiCo partnered with Thein Tun to help with its entry into Burma. Thein Tun was an ardent supporter of the Burmese military junta, which was accused of human rights violations in the world, including forced-labor and the destruction of any opposition. Most companies refused to enter Burma at that time until the return of democracy. The boycott of companies who were doing business in Burma became so extreme that the Free Burma Coalition initiated the movement to take Pepsi products out of all American universities. The Third World First organization in Europe also pressured Pepsi to get out of Burma. In response, Pepsi sold its share of the franchise to its Burmese partner but kept the franchise agreement. The activist groups and the surrounding society were not satisfied with this move. As pressure continued to mount, Pepsi left Burma completely in 1997.

## HEALTH

The nature of the products manufactured and sold by PepsiCo has caused many problems for the company in the issue of health. Although PepsiCo now has numerous products geared toward health, its most popular product is still its signature Pepsi-Cola. At the same time, America is becoming more health-conscious and desires low calorie, low fat, natural items instead of processed sugary and salty foods. Some of the health concerns of drinking soda include the increased caloric intake as well as the possibility of tooth decay due to soda's acidity, caffeine dependence, and weaker bones. Pepsi has fought back by creating sodas that have low calorie and sugar content. Unfortunately, this only helps with the weight risk. The acidic nature of the product can still damage the teeth, and the artificial sweeteners used also have their own set of health risks. PepsiCo's traditional snack items have met with similar criticism. Most of the products are processed and contain a high amount of sodium and sugar as well as being highly caloric and fatty. Frito-Lay Company has tried to combat the issue by offering Baked Lays, Baked Cheetos, SunChips, and other healthier alternatives. These alternatives are claimed to be healthier all-around. The health issue is going to be an ongoing battle for the company due to the nature of the industry it is in. Continual research and product development to offer healthier products is essential for PepsiCo's future profitability.

Although the battle may be a long one, PepsiCo is making strides to address these concerns. For example, the Frito-Lay website has a special area devoted to health that describes the ingredients of Frito-Lay snacks and encourages consumers to practice moderation in snack food consumption. One of the goals of PepsiCo CEO Indra Nooyi is to invest more in health food; already the company claims that \$10 billion comes from healthy snacks the company offers. Nooyi anticipates that further investment will yield \$30 billion in the future. Interestingly enough, to tackle this issue, PepsiCo is hiring people that are potential enemies of the organization: health officials. Formerly employed at institutions like the World Health Organization and the Mayo Clinic, these Pepsi employees are now researching healthier ingredients to put in PepsiCo snacks. One success thus far has been the introduction of a zero-calorie natural sweetener called stevia into new brands, one of which has become a \$100 million brand in less than a year. It is clear that not only is healthier snack foods socially responsible, but it is also good business in an increasingly health-conscious marketplace.

### AQUAFINA TAP WATER

The public's attention was on Aquafina bottled water in 2007 when the watchdog group Corporate Accountability International claimed that the company was using tap water to fill the water bottles being sold. The water was not regular tap water but came from a public water supply before processing. Aquafina was accused of not being transparent in its business practices. It was not publically known that the company's procedures included a rigorous seven-step process which removes unwanted substances and is then branded as purified drinking water. Additionally, the label on the Aquafina bottle had snow capped mountains on it, which seems to suggest that the water is purified spring water. PepsiCo is now required to put the words "Public Water Source" on the label.

This scenario brings up an ethical situation common in today's marketplace. Many corporations utilize idyllic scenes on their packages that do not reflect reality. A giant agribusiness, for example, might have a picture of a traditional farm on its package. Some consumers find this to be misleading. Additionally, many consumers do not realize that labeling laws are not as strict in the U.S. as in other countries. For example, U.S. manufacturers do not have to label whether a food product contains genetically-modified ingredients. In these cases, it is often the informed consumer or watchdog group that calls for action, as PepsiCo inevitably discovered.

On top of the tap water dilemma, water bottle companies are dealing with criticisms for the amount of plastic these bottles contribute to land-fills. There are movements around the country like the "Think Outside the Bottle" campaign to challenge people to go back to drinking tap water again in order to stop the amount of waste produced by the bottles. However, the increasing popularity of bottled water does not appear to be diminishing anytime soon. PepsiCo is in the process of developing bottles that use less amounts of plastic per bottle to help the waste issue. Today, the Aquafina bottle weighs 10.9 grams, compared with the 18.5 grams in 2001, and PepsiCo has set a goal to decrease its packaging by 350 million pounds by 2012.



## IPHONE APP

In 2009 a PepsiCo iPhone app for its AMP Energy Drink unleashed a stream of criticism. AMP is a new energy drink, and to promote the beverage PepsiCo released AMP Up Before You Score campaign using mobile phone apps. While the idea of mobile app marketing was a creative one, the general consensus was that the app was in poor taste. The concept of the app was to help men “score” by categorizing women into 24 different groups and then giving the men clues about her personality, things she enjoys, and even providing them with opening lines for conversation. If a man was successful in “scoring” with that type of woman, he could create a “brag list” with names, dates, and details. This information could then be uploaded onto Facebook and Twitter.

Soon after the app was introduced, it was protested by activist groups and thousands of Facebook and Twitter users across the country. The app was immediately pulled and Pepsi is still being criticized for the insensitivity and offensive nature of the app. PepsiCo was trying to stay current and creatively reach its target market by being funny. Instead, its message came out as crude and offensive. PepsiCo’s hard lesson proves that even with exciting new technology and marketing venues, companies must continue to create carefully designed and thought-out campaigns for their audiences.

## SOCIAL RESPONSIBILITY & SUSTAINABILITY

Despite the many criticisms it has encountered throughout its long history, PepsiCo has recognized the importance of social responsibility to its reputation. As such, PepsiCo continually emphasizes its commitment to sustainable growth and its focus on generating healthy financial returns, while giving back to those communities that it serves.

PepsiCo’s commitment to its community and toward sustainable growth is outlined in something it calls “Performance with Purpose.” PepsiCo gives back to its communities and stakeholders while maintaining high standards, establishing and meeting goals, and producing attainable outcomes. CEO Indra Nooyi claims that “Performance with Purpose” consists of three parts: products, the environment, and employees. These areas must be addressed for PepsiCo to be a socially responsible company.

Part of PepsiCo’s commitment to this goal includes meeting consumer needs for a spectrum of convenient foods and beverages. Pepsi has been scrutinized for its unhealthy products and has been criticized for contributing to obesity. Although PepsiCo has made many changes to its product line, incorporating healthier options and reducing fat, sugars, and other unhealthy ingredients, it does recognize the consumers’ desire for easy and accessible snack foods and beverages. These food products may not be the healthiest option, but they do meet the consumers’ needs for easy access. The trick for PepsiCo is to balance the need for convenience with the need for healthier food offerings. Acting in the interests of the consumers, PepsiCo engages in research to develop healthier products and reduce unnecessary editions.

PepsiCo views its goal of decreasing its environmental impact not only as socially responsible, but also in the best interest of its stakeholders. For PepsiCo, a large part of its sustainability efforts

involves reducing the negative effects resulting from the production and consumption of its products. This includes “going green” (for example, through water conservation and the reduction of waste products) and reducing its carbon footprint. PepsiCo reduces its impact on the environment through various water, energy, and packaging initiatives. Because PepsiCo develops products using water, and actually sells bottled water, it is actively implementing programs to reduce waste and conserve resources. This involves water recycling and treatment efforts, where recycled water is treated thoroughly and reused within its products. By making changes in its operations, PepsiCo claims to have saved 11 billion liters of water in 2009 alone. PepsiCo also invests in clean energy sources, such as its wind turbine project in India, which supplies more than two-thirds of the power used in one year by its Mamandur beverage plant. Additionally, PepsiCo has reduced the amount of plastic used in its beverage containers, which has significantly decreased the amount of waste sent to landfills. PepsiCo UK manufacturing facilities no longer send waste to landfills, and in the U.S. Frito-Lay reduced the waste that ended up in landfills by over 45 percent in two years. Finally, Pepsi is actively creating partnerships with community organizations geared toward increasing recycling efforts.

Another aspect of Pepsi’s commitment to social responsibility is reflected in its support of and commitment to its employees. It is PepsiCo’s goal to encourage a diverse corporate culture along with employee engagement in the workplace and community. This is valuable to PepsiCo because it sees this as an opportunity to benefit from new perspectives and to encourage creativity within the workplace. It understands that employees are a key to success and reflect what PepsiCo means to customers. According to the company’s philosophy, it is important for PepsiCo to maintain mutual respect, integrity, and safety in the workplace. Because it inspires a collaborative culture, PepsiCo aims to recruit and retain world-class talent through employee satisfaction—what PepsiCo terms “Talent Sustainability.” For instance, to encourage employees (associates) to speak out, PepsiCo provides them with a biennial Organizational Health Survey to get their opinions on the organization and the workplace. Additionally, PepsiCo values the talents of its employees and offers management courses at its institution Pepsi University to provide employees with the leadership skills necessary to take on managerial roles within the company.

PepsiCo has also developed a Code of Conduct that addresses various business ethics issues such as bribery and conflicts of interest. The company expects its workers to be familiar with its Code of Conduct and employs a chief compliance officer to enforce the Code. PepsiCo provides annual ethics training programs for employees and noted a 49 percent increase in employee ethics training from 2008 to 2009. Training sessions are available online or through workshops. In 2009 alone, over 44,000 employees, including most managers, participated in Code of Conduct trainings. PepsiCo’s compliance programs are frequently reviewed by independent third parties to pinpoint key risks. More specific aspects of PepsiCo’s compliance program, such as its environmental activities, are audited externally. Finally, the company has what it calls an “Internal Audit methodology” and maintains a 24-hour anonymous ethics hotline to which employees can report concerns or ethical violations.

In order to maintain its commitment to its communities and assorted stakeholders, PepsiCo has high standards for quality. By adhering to processes and ensuring proper governance, the company

attempts to uphold its responsibilities and earn the confidence of stakeholders. To measure its progress and to make certain that it remains focused, PepsiCo has developed the following six guiding principles that it uses to sustain its commitment.

PepsiCo Guiding Principles	
We must always strive to:	
1.	Care for our customers, our consumers and the world we live in.
2.	Sell only products we can be proud of.
3.	Speak with truth and candor.
4.	Balance short term and long term.
5.	Win with diversity and inclusion.
6.	Respect others and succeed together.

Source: "PepsiCo Values & Philosophy." PepsiCo. <http://www.pepsico.com/Company/PepsiCo-Values-and-Philosophy.html> (accessed June 9, 2010).

These guiding principles encompass Pepsi's overall commitment to its community. Like all companies, PepsiCo's success depends on its stakeholders, so PepsiCo strives to understand consumers' needs and wants. In order to meet stakeholder expectations, product quality, integrity, and honesty are essential to PepsiCo's goals. This requires that the company be transparent and foster communication. By having clear goals and focusing on attainable solutions, PepsiCo is able to grow in a relevant direction and analyze both short and long term consequences.

PepsiCo also demonstrates social responsibility and dedication to sustainability through several community outreach efforts like the PepsiCo Foundation, Pepsi Refresh Project, the Pepsi We Inspire Campaign, and the Dream Machine. These efforts are described in further detail below.

## PEPSICO FOUNDATION

The PepsiCo Foundation was established in 1962 and provides philanthropic contributions to a variety of nonprofits. To be eligible, nonprofits must promote the PepsiCo Foundation's philosophy to "foster healthy, vibrant and self-sufficient communities worldwide through global partnerships that improve the quality of life across communities in areas of need." Some of the ways the Foundation gives back to the community is through grants, employee programs, and disaster response and relief efforts. PepsiCo's focus is to improve the quality of life for those who are in the greatest need. Its approach consists of awarding grants to those programs and organizations that have proven track records and to strive to make an impact expanding beyond that of its own communities. In 2009, the PepsiCo Foundation gave \$27.9 million toward philanthropic endeavors.

PepsiCo encourages its employees to be engaged in its communities through its Matching Gifts Program, in which the company will match employee contributions to nonprofit organizations that are considered eligible. By doing so, PepsiCo creates an ethical and philanthropic climate for its workers. PepsiCo also supports the United Way Campaign, supports post-secondary education for its employees' children through its EXCEL awards, and holds Global Community Service Days to encourage PepsiCo employees across the world to perform community service activities for a day. Additionally, the PepsiCo Foundation contributes to disaster relief through financial assistance,

product donations, and human resources. In the past, the PepsiCo Foundation contributed to disaster relief for the 2008 Iowa flooding in Cedar Rapids with contributions of over \$500,000 and for the 2010 Haitian earthquake with an initial donation of \$1 million along with resources like bottled water and other beverages. PepsiCo also partners with water.org and the Safe Water Network to help improve access to clean, affordable water in communities worldwide.

### WE INSPIRE CAMPAIGN

Another of PepsiCo's initiatives is to empower women. As a result, it created the Pepsi We Inspire campaign to give women a platform to communicate, using Pepsi's website: [pepsiweinspire.com](http://pepsiweinspire.com). Pepsi has provided women with an interactive website designed to let them share stories that "inspire, motivate, inform and strengthen" their relationships. They are encouraged to post photos and information in a blog-like style, sharing intimate moments, songs, movies, recipes, and more. Celebrity women, such as Queen Latifah and comedienne and actress Raven-Symone, are involved as spokespersons for different community outreach programs important to women. They also represent six categories that have been identified by PepsiCo as being of great importance to women: beauty (Queen Latifah), laughter (Raven-Symone), joy, hope, wisdom, and love. PepsiCo uses Facebook to link the information that they post on their website to their Facebook Profile. This partnership strengthens PepsiCo's ability to get women involved and to be inspired by powerful women who act as role models. In February 2010, Pepsi We Inspire was awarded the NAACP award for its leadership in promoting multicultural images and role models in the media.

### PEPSI REFRESH PROJECT

PepsiCo took a risky move for the 2010 Super Bowl. The company has been running super bowl ads since 1987, but after 23 years PepsiCo decided to sit out on the Super Bowl ads for 2010. The Super Bowl is known as one of the highlights of many companies' advertising budgets, and PepsiCo is no different. It was the biggest advertiser during the 2009 Super Bowl and has made the Super Bowl into a major part of its marketing strategy. PepsiCo has used its Super Bowl ads to promote new products, often using celebrities such as Britney Spears and Ozzy Osbourne. This year, however, PepsiCo decided to do something innovative and different. It decided to invest in cause-related marketing.

The purpose of cause-related marketing is to get the consumer involved in social causes. In the process, it portrays the sponsoring company in a favorable light. Marketing strategies in the past have been focused on conveying a message to consumers, influencing them to purchase their products by appealing to their emotions. Cause-related marketing may do the same thing, but instead of merely getting a product, consumers receive the added incentive of contributing to a social cause when they do business with a certain company. Thus, PepsiCo is taking a twist on the more conventional methods of marketing and advertising by launching a cause-related campaign. In this type of campaign, PepsiCo is getting consumers involved, giving them a platform to have their voices and opinions heard, and propelling positive change. So although Doritos, a PepsiCo snack food under Frito-Lay, did have various ads in Super Bowl XLIV, the company's title brand Pepsi did not. In its place the company launched the Pepsi Refresh Project.

The Pepsi Refresh Project is a unique social responsibility initiative because while it donates grants for certain causes, the consumers do the work—even in deciding who is awarded the grants. The entire process happens through social media. Basically, instead of paying the nearly \$3 million for a 30-second TV ad, Pepsi has decided to better use its funds to inspire people to get involved in good causes. It dedicated at least \$20 million, through the end of 2010, for donations to local organizations and causes proposed by the public. The topic areas are being classified as Health, Arts & Culture, Food & Shelter, The Planet, Neighborhoods, and Education. Consumers can go online to [refresheverything.com](http://refresheverything.com), post their ideas for causes, and/or vote for those ideas already posted. Every month PepsiCo tallies the votes and donates grant money to those with the most votes. Grant awards are separated into four categories: \$5,000, \$25,000, \$50,000, and \$250,000. Recipients who have been awarded funding for their proposed causes include the Kanzius Cancer Research Foundation, Ben-Gil Elementary Boosters, and the Waukee High School Earth Club, among others.

The Pepsi Refresh Project challenges people, businesses, and non-profits to look around their communities and identify things that they want to change. Many of PepsiCo's ads include the question: "What do you care about?" PepsiCo has been distributing ads around the country with captivating phrases and words, all with the Pepsi logo placed in each letter "o." These words capture a positive 'can do' attitude, inspiring consumers to think about what matters and to act on those ideas they care most about. The site is user-friendly and interactive. Other forms of social media that PepsiCo is using include Facebook, Twitter and Hulu. Broadcast networks such as ABC and CBS will also be involved, as well as media partners like AOL, Yahoo!, MTV Networks, and Parade. PepsiCo will also be known as the sponsor of the first long-form series on the online video site Hulu, with its reality show "If I Can Dream." Hulu states that its site will be used to strengthen PepsiCo's cause-related advertising campaign. It is clear that in addition to its heavy reliance on web ads and public relations, PepsiCo is utilizing the whole spectrum of social media outlets to bring its cause to fruition. In so doing, the company hopes to reach its target market of a younger audience.

Although Pepsi's decision to skip the Super Bowl is risky, even skeptics admit that it has generated a positive buzz around the company. PepsiCo has been able to differentiate itself in an innovative way, paving the way for new socially responsible and conscious advertising. This is becoming more than just cause-related marketing used to engage customers; it is quickly becoming a movement defining PepsiCo as a leader when it comes to social responsibility and sustainability.

## DREAM MACHINE

On April 22, 2010 (Earth Day) PepsiCo announced its multi-year partnership with Waste Management Inc. in support of the Dream Machine recycling initiative. The Dream Machine initiative recognizes that many plastic cans and bottles are needlessly thrown away each year, particularly by busy consumers on the go. The two partners want to see the U.S. beverage container recycling rate increase from a mere 34 percent to 50 percent by 2018. This will be encouraged with PepsiCo's Dream Machine kiosks that act like reverse vending machines. The Dream Machine kiosks are computerized receptacles that give consumers points when they recycle their bottles. The process involves only a few steps. First, the consumer registers on the kiosk. Then he or she scans

the can or bottle's barcode and puts it in the appropriate chute. The kiosk then issues the user a receipt that contains reward points that can be redeemed for such things as movie tickets, coupons, or other goods.

Consumers are able to redeem these points at [www.greenopolis.com](http://www.greenopolis.com). Greenopolis, LLC will be working with PepsiCo to bring these, the very first, recycling systems to consumers in public areas and stores. Consumers also have another incentive to recycle: the more recycling done, the more PepsiCo will be able to help disabled veterans. PepsiCo is extending its partnership with Entrepreneurship Bootcamp for Veterans with Disabilities (EBV) to offer training in business management to disabled veterans. The kiosks began with fifty installed around Southern California, with a goal to install as many as 3,000 in public areas during 2010. Currently, only about a third of nonalcoholic plastic beverage containers are being recycled each year, and only 12 percent of public spaces have recycling receptacles. The Dream Machines are a way to meet the clear need for greater public access to recycling bins as well as to promote PepsiCo's sustainability efforts.

## CONCLUSION

PepsiCo is the classic business success story, starting with one man's invention and becoming a multimillion dollar enterprise with operations all across the globe. Yet the company could not avoid becoming involved in major controversies. PepsiCo is moving toward a more balanced stakeholder orientation by identifying those stakeholders that are relevant to the firm and trying to understand and respond to their concerns and needs. The current leadership at PepsiCo understands the importance of stakeholders and the need to develop effective dialogues and other communication to help PepsiCo resolve conflicts. Some issues such as the nutritional concerns over soft drinks and snack foods create a serious dilemma in balancing the concerns of special-interest groups and the desires of consumers for good tasting food.

While some of the company's past challenges were likely inevitable, some were caused by not understanding stakeholder needs or by ethical lapses on the part of the company. From a lack of cultural sensitivity to health concerns to environmental degradation, PepsiCo has faced its share of ethical dilemmas. However, it has also become a major leader in the sustainability and social responsibility movement. Although it has a long way to go before its snacks can be considered healthy or its manufacturing processes truly sustainable, PepsiCo has demonstrated a willingness to invest in innovative solutions for these problems. If PepsiCo can continue to learn from its mistakes, it can make progress in solidifying a reputation as a socially responsible company. The future of PepsiCo depends upon continuing to develop an ethical corporate culture built on values that help employees relate to the needs and desires of all stakeholders.

## QUESTIONS

1. How does PepsiCo balance those stakeholders such as consumers and shareholders that are interested in good tasting products and financial performance with special-interest groups and regulators that are more concerned about nutrition?



2. How effective do you think PepsiCo has been in responding to stakeholder concerns about nutrition and sustainability?
3. While PepsiCo was trying to become a responsible and ethical company, how did the AMP Up Before You Score mobile app get distributed without proper oversight from those who are concerned about appropriate conduct and the reputation of the company?

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